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Passing the baton to the next generation of the Greek family businesses

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Abstract

Family firms are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the responsibility they feel and the values they stand for.

One of the most crucial phases of the life-cycle of a business is the moment of transferring its ownership and leadership. The lack of succession planning is one of the most important reasons why many first-generation firms do not survive their founders. Preparing for a business transfer is a long and complex process entailing a number of difficulties.

In a number of European countries appropriate structures has been created for a successful transfer of family businesses to the next generation. Examples of these structures are: “*passing the baton*” in Finland, “*from a single project to a path of overall support*” in Netherlands, “*Kit.brunello*” in Italy and “*the FAMBUS diagnosis and self-therapy model*” in Greece.

The findings of the FAMBUS (Family Businesses) research project, are based on the results of a quantitative study of family businesses in Greece and Finland, carried out in 2014. As regards the issue of succession, the findings indicate that: (a) most of the owners-founders are intended to pass the family business to their children (b) less than half of the owners have already chosen their successor (c) a relatively high percentage of the owners intend to continue working in the family business even after their retirement and (d) the three most important criteria that the owners have used for choosing their successor/s in the family business, are: “personal skills”, “loyalty in business” and “coincidence with the vision of the company”.

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1. Introduction

Family firms are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the responsibility they feel and the values they stand for. One important advantage of a family business is its ability to survive in times of economic crisis. According to the European Barometer, family businesses in Europe possess 70% of GDP and 60% of working manpower. The main difficulties faced by family businesses are the issue of succession, as the probability of taking charge of the company reduces significantly from generation to generation, while the lack of successors and succession planning results to a shut down for one third of them, the issue of access to finance and the governance of the company.

Greece has one of the largest numbers of SMEs businesses within the EU and most of them are family businesses. Most of them are small or very small (employing less than 10 employees) and operate in traditional sectors of the national economy such as retail trade, services, cottage industry and construction. Research in Greece shows that 8 out of 10 entrepreneurs want to “pass the baton” to the next generation although they believe that these family members do not have the necessary qualifications. Family businesses in Greece can support the economy and can provide a solution to the issue of unemployment in times of crisis. The establishment of a new body representing family businesses in Greece is necessary.

Succession in the family business was very patriarchal, with the entrepreneurial founder expecting his children to succeed him in the family business. There was little discussion of alternative careers, particularly for the older sons. This traditional model is changing in the past decades, as the business and family become more separated, the stability of families becomes challenged by societal changes, and the next generation is much better educated and independent. Succession is no longer taken for granted and leaders need to “sell” the idea of succession to their children, as the concept of taking over the helm of the family business may not be as attractive for the younger generation compared to finding their own career path. In the modern model, succession is not taken for granted. Family businesses' leaders consider alternative options such as placing the family business under a foundation, selling the business to employees or selling it to an outside acquirer. The next generation often assumes that they will not lead the family business as they embark on their own careers (Santos, 2015). This model is confirmed in Finland where the younger generation is not interested in leading the family business. On the contrary in Greece the situation is completely different as most of the owners plan to bequeath the family business to their children according to the traditional model of succession.

2. Preparing for a business transfer

One of the most crucial phases of the life-cycle of a business is the moment of transferring its ownership and leadership. “The lack of succession planning is one of the most important reasons why many first-generation firms do not survive their founders” (Lansberg, 1988). Several researchers (Aronoff, Astrachan, Keating and Little, Murray) have highlighted that there is no connection between planning and successful succession. Instead, the succession process requires the perspective of a multigenerational time frame. In between, Lambrecht and Doncel (2006) argue that the transfer of the family business to the next generation is a lifelong continuing process, in which planning is an intrinsic part. Planning is a necessary but not a sufficient condition for a successful transferring of the family business to the following generation.

Preparing for a business transfer is a long and complex process entailing a number of difficulties. The first type of difficulty is emotional. Entrepreneurs who have created their own business over a number of years, are reluctant to prepare the transfer of their business to the next generation. The second type of difficulty is the complexity of the process and the fact that they have no experience or knowledge of how to handle this situation. The third type of obstacle is national legislation such as company law, taxation and administrative formalities. Examples of difficulties in this area include high inheritance taxes, finance, problems connected to changes in the legal form and of transferring the assets of an enterprise. Those issues connected with a business transfer, also depend on the size of the company. Bigger companies can rely on the advice of experts, while smaller businesses are less aware of business transfer issues.

According to a recent survey of KPMG and the European Family Business Organization (2014), 37% of family businesses in Europe declare that they would desire more favorable taxation and administrative regulations for the transfer of the family business to the next generation.

According to Lambrecht and Donckels (2006) a successful business transfer includes six separate stepping stones: a) interpreneurship, b) studies, c) internal education at a young age, d) outside work experience, e) starting at the bottom rung and f) written planning.

3. Support structures for family business succession

In a number of European countries support structures have been created for a successful transfer of family businesses to the next generation. In Netherlands the Council of Entrepreneurship in cooperation with a bank and an accountancy firm developed a support structure called: *“from single project to a path of overall support: towards an integrated method of information and advice on the transfer of family businesses”*. This support structure includes connected activities aimed at raising awareness, providing training and individual advice. The Finish Employment and Economic Development Centers offer the business tool *“passing the baton”* that helps to manage the generation shift. This service specifies the status and expectations of both the entrepreneur relinquishing the business and the successor. It also considers suitable candidates for succession, determines the worth of the enterprise, clarifies tax and judicial aspects and assesses the financing potential of alternative methods of handing over. *“Kit.brunello”* in Italy is a self-analysis check-up for SMEs, specifically focused on family business transfer processes. This tool is available in five languages and contains questions to help entrepreneurs, managers and accountants understand the strong and weak points of the transfer of businesses. Kit.brunello covers not only technical aspects, but also emotional, psychological as well as leadership analysis (Helping the Transfer of Business, 2003).

4. The “FAMBUS” diagnosis and self-therapy model in Greece

The FAMBUS Diagnosis and Self-Therapy model and its corresponding electronic web-based tool, developed as the outcome of the FAMBUS three year research project, aims to diagnosing problem areas and proposing therapy for family businesses (Siakas et al., 2014a, 2014b).

The FAMBUS project, that ended in March 2015, included an extensive literature review, a quantitative study (a survey comprising an on-line structured questionnaire completed by 200 Finnish and Greek family businesses) and a qualitative study (personal site visits and interviews comprising 20 interviews of family businesses in both Finland and Greece). Correlations were drawn between family businesses in Finland and in Greece, both small periphery countries, members of the EU, where family businesses possess a dominant role in their economies. The business structure and hierarchy are rather different in these two countries, as well as the business conduct and culture. Despite the differences there are many common challenges that are pinpointed in the FAMBUS Diagnosis and Self-Therapy model/tool, to support all kinds of family businesses, wherever they are situated, in identifying problem areas and to reflect on proposed solutions, as well as to meet other family businesses for networking and problem solving.

To the extent of our knowledge a model similar to the FAMBUS Diagnosis and Self-Therapy model and its corresponding electronic web-based tool, is entirely new. The comparative analysis between challenges in Finnish and Greek family businesses is original and unique and is anticipated to add to the existing knowledge in the field and to bring added value to family businesses in general. Also the social media platform, connected to the web-site of the project, is a contemporary and novel diffusion technique that anticipates to bringing family businesses and other stakeholders together for knowledge sharing and potential future collaboration. It serves as a meeting and communication platform for involved partners and for viral marketing.

The insights gained from both the literature review and the analysis of the results of the FAMBUS research project encapsulated in the FAMBUS Diagnosis and Self-Therapy model/tool includes the following groups of potential jeopardy characteristics of a family business:

- Vision & Strategy
- Administration

- Motives
- Succession
- Participation in Networks
- Conflicts

All the characteristics consist of several sub-characteristics that are examined in the tool. Regarding succession, the emphasis of this paper, we can mention the following sub-characteristics that need to be taken into consideration:

- *Existence of a succession plan*: Transfer of the family business to the next generation forms one of the highest challenges for business continuity. The vast majority of family businesses fail to effectively deal successfully with the succession. More family members mean increased complexity, because they bring a diversity of skills, interests and needs. This diversity needs to be understood, accepted and carefully planned. A succession plan created in an early stage increases the potential for successful business transfer to the next generation.
- *Criteria for choosing successor(s)*: In order to prepare for a successful succession the criteria for choosing successor(s) need to be determined and announced so that all involved parts have an opportunity to express their viewpoints and to take correct actions.
- *Agreement of succession plan by other family members*: succession involves various levels of a time-consuming process influenced by diverse family dynamics, such as power control and tactics, communication styles, feelings, motivations, and conflicts. An agreement of the succession plan by all involved family members is inevitable a critical factor for harmony in the business and in the family.
- *Suitability of successor(s) for the family business*: The future successor(s) can be prepared in due time for the business transfer when taking the following sub-characteristics into consideration:
 - *Value – stability – change*: The founder is considered to create the business culture, including the values of the business. It is important that the successor(s) understand the business values for continuity and stability. The new generation may have different values than the business and may be aiming for a change through modernization of the business for example with the use of Information and Communication Technologies (ICTs) (Siakas et al., 2015) or contemporary marketing tools (Vlachakis et al., 2014). This may have positive effects on the family business, but there is also a high risk for conflicts. Understanding of the current values, profound communication between family members and agreements are important factors to support the generation transfer.
 - *Experience in the family business / other experience*: The earlier the successor(s) get involved in family business transactions at different levels the easier is the business transfer, since the successor(s) already are integrated in the family business culture. A beneficial tactic is also for the successor(s) to receive experience from an outside similar successful business, for increasing understanding of how things can be done in a different way and for increasing experience and knowledge of the family business field.
 - *Education / training*: a factor influencing the effectiveness of the succession is the level of education and suitable training. The earlier the succession plan is put in place the better possibility for the successor(s) to get relevant education/training before entering the family business.

The FAMBUS Diagnosis and Self-Therapy electronic tool hosted in the web-site of the project (www.fambus.teithe.gr) is available in three languages, namely English, Finnish and Greek for use by any interested family business. The tool asks the family business representative to answer certain questions related to the six characteristics/potential challenges described above. Depending on the answers given by the family business representative a diagnosis is concluded and some general recommendations are provided for the family business to reflect on. The tool is expected to aid family businesses to avoid difficulties at an early stage and to serve as a self-therapy tool.

The main results stemming from the family business Diagnosis and Self-Therapy model and equivalent electronic tool are expected to be very useful for family businesses that want to find an easy and cheap way of diagnosing

potential problem areas and receiving improvement proposals instead of hiring expensive business consultants. Subsequently the web page for the model/tool will also serve as a meeting/communication social media platform/forum for family businesses and other interested parts as well as a dissemination point for authorities, industry and academia. Viral marketing (word-of mouth) techniques will be used to spread the information of the project and subsequent activities.

Direct financial advantages may be difficult to measure, but if the project is successful and several family businesses find the advices useful then the direct and indirect financial benefits will not only be evident for the family business themselves but will also have a direct financial consequence on broader local as well as international level. Further potential benefits will be improved collaboration between family businesses.

5. Findings of the FAMBUS project regarding succession

The findings of the FAMBUS project, which was implemented under the research funding program “Archimedes III”, are based on the results of a quantitative study of family businesses in Greece and Finland, carried out in 2014. We sent the questionnaire mainly to small and very small family businesses of the following sectors: services, retail trade and light industries working in the area of Thesssaloniki-Greece. One aim of the FAMBUS research project was to investigate the difficulties family businesses face in a number of areas, such as strategy, administration, internal conflicts and succession. As general remarks we can mention that most of the family businesses (48%) see their future “positive” or “very positive” even in times of economic crisis. Only 10% of them are pessimistic about their future. The proportion of ownership held by family members is very high (90%). Only a small percentage of them (10%) export their products to other countries, provide services to other industries and participate in clusters, nationally or abroad. In order to survive, they should become more export-oriented and cooperate with other businesses for networking and problem solving. With reference to the motives that incite the family businesses' founders to establish a business in Greece, the most important seems to be the creation of employment positions for them and their family members rather than the exploitation of a business opportunity. This means that most of the entrepreneurial activities in Greece are “necessity entrepreneurship” than “opportunity entrepreneurship”. Concerning the use of information technologies and marketing tools, most of the family businesses make use only of simple applications, such as commercial packages, while only 15% of them make use of marketing tools “fair enough” or “very much”.

As regards the succession issue, the most important results are presented in the following tables:

Table 1. Plans for the future of the family business.

	%
Bequeath to the next generation	81.8
Sell the business and go into retirement	11.1
Liquidation, closure of the business and go into retirement	7.1
TOTAL	100.0

Most of the owners-founders (81.8%) intend to pass the family business to their children, mainly because there are no alternative career options for them in Greece as a result of the fiscal crisis (Table 1). This rate was only 50% before the crisis, as successors preferred to find out a safer position, preferably in the public sector, than the uncertainty of a private enterprise.

Table 2. Successors' choice.

	%
Yes	45.8
Not yet	24.1
No, successors are too young	30.1
TOTAL	100.0

45.8% of the founders have already chosen their successors, while 24.1% have not decided yet. Another 30.1% have not decided as their successors are too young (Table 2).

Table 3. Criteria for choosing a successor.

	%
Personal skills	28.7
Loyalty in business	24.0
Same vision for the company	20.4
Education level	18.6
Gender of successor	6.0
Tradition	2.3
TOTAL	100.0

The basic criteria that owners have used for choosing a successor are: personal skills (28.7%), loyalty in business (24%) and coincidence with the vision of the firm (20.4%). Some other criteria used are: level of education (18.6%), gender (6%) and tradition (2.3%) (Table 3).

Table 4. After bequeathing the family business.

	%
It is too early	41.5
Retirement	12.2
Retirement and continue to be employed outside of the family business	1.2
Retirement and continue to be ancillary employed in the family business	39.0
Retirement and continue to be regularly employed in the family business	6.1
TOTAL	100.0

A high percentage of the owners ($39.0\% + 6.1\% = 45.1\%$) have decided to continue working at the family business even after retirement, while another 41.5% considers that it is too early for retirement (Table 4). Greek entrepreneurs who have created and build up their own business over a number of years are very reluctant to withdraw and prepare the transfer of the business. The next generation is willing to take over the helm of the family business as alternative career opportunities are very limited.

6. Conclusions

One of the most important phases of the life-cycle of a business is the moment of transferring its ownership and leadership. The traditional model of succession is changing giving its position to a new model in which succession is not taken for granted. In different European countries appropriate structures have been created for a successful transfer of family business to the next generation. In Greece the “FAMBUS diagnosis and self-therapy electronic tool” has been developed to help entrepreneurs in Greece and Finland to identify potential problem areas and to transfer their family business successfully.

The main results of the this research project, regarding the issue of succession, are that most of the family business founders intend to pass the family business to the next generation mainly because there are no alternative career opportunities for their successors, less than half of the owners have already chosen their successors, a relatively high percentage of the owners intend to continue working in the family business after retirement and the three most important criteria for choosing their successors are: personal skills, loyalty in business and coincidence with the vision of the company.

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